

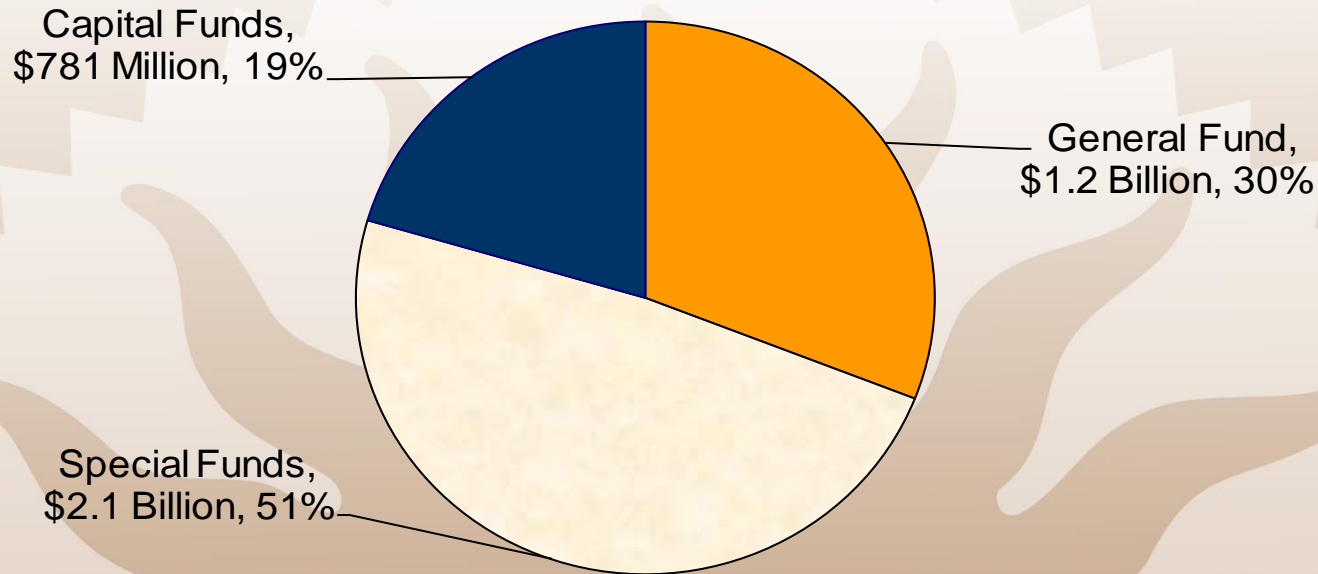
City of San José

2018-2019 Proposed Operating Budget Overview

May 9, 2018

City of San José Budget Overview

2018-2019 PROPOSED CITY BUDGET¹:	\$3.5 billion
TOTAL NUMBER OF FUNDS:	120
TOTAL NUMBER OF POSITIONS (FTE):	6,392



¹ An adjustment of \$684 million is necessary to arrive at the \$3.5 billion net 2018-2019 Proposed City Budget to avoid the double-counting of transfers, loans, and contributions between City funds.

2018-2019 Proposed Budget Overview

- All funds (General Fund, special and capital funds) brought into balance
- General Fund projected shortfall of \$4.3 million addressed and \$15.5 million set aside to cover the projected shortfall in 2019-2020
- Targeted investments in:
 - Homelessness and Housing
 - Public Safety
 - Environment
 - Innovation and Technology
 - Education and Our Youth
 - Community Engagement
 - Saving and Improving Fiscal Sustainability
- Positions are up 2.3%, from 6,250 to 6,392

2019-2023 General Fund Forecast

2019-2023 General Fund Forecast Incremental General Fund Shortfalls

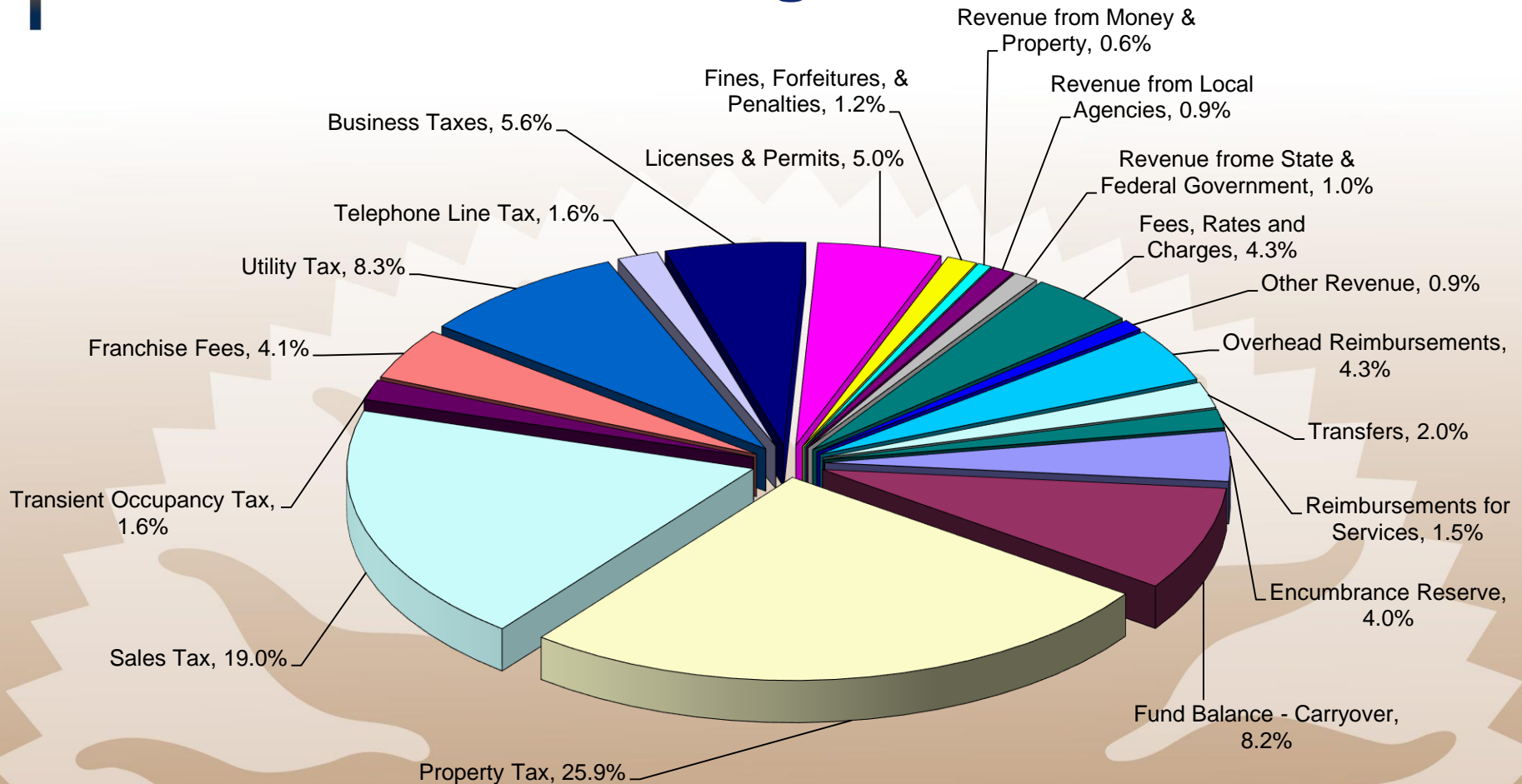
	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Incremental Shortfalls	(\$4.3 M)	(\$15.5 M)	(\$8.9 M)	(\$10.5 M)	\$10.8 M
% of Annual Budget	(0.2%)	(0.7%)	(0.4%)	(0.4%)	0.4%

* 2018-2019 Forecast was revised from the \$7.3 million shortfall presented in the February 2018 Forecast based on continued analysis. No net impacts associated with the Development Fee Programs are included due to the cost-recovery nature of these programs.

Does not include:

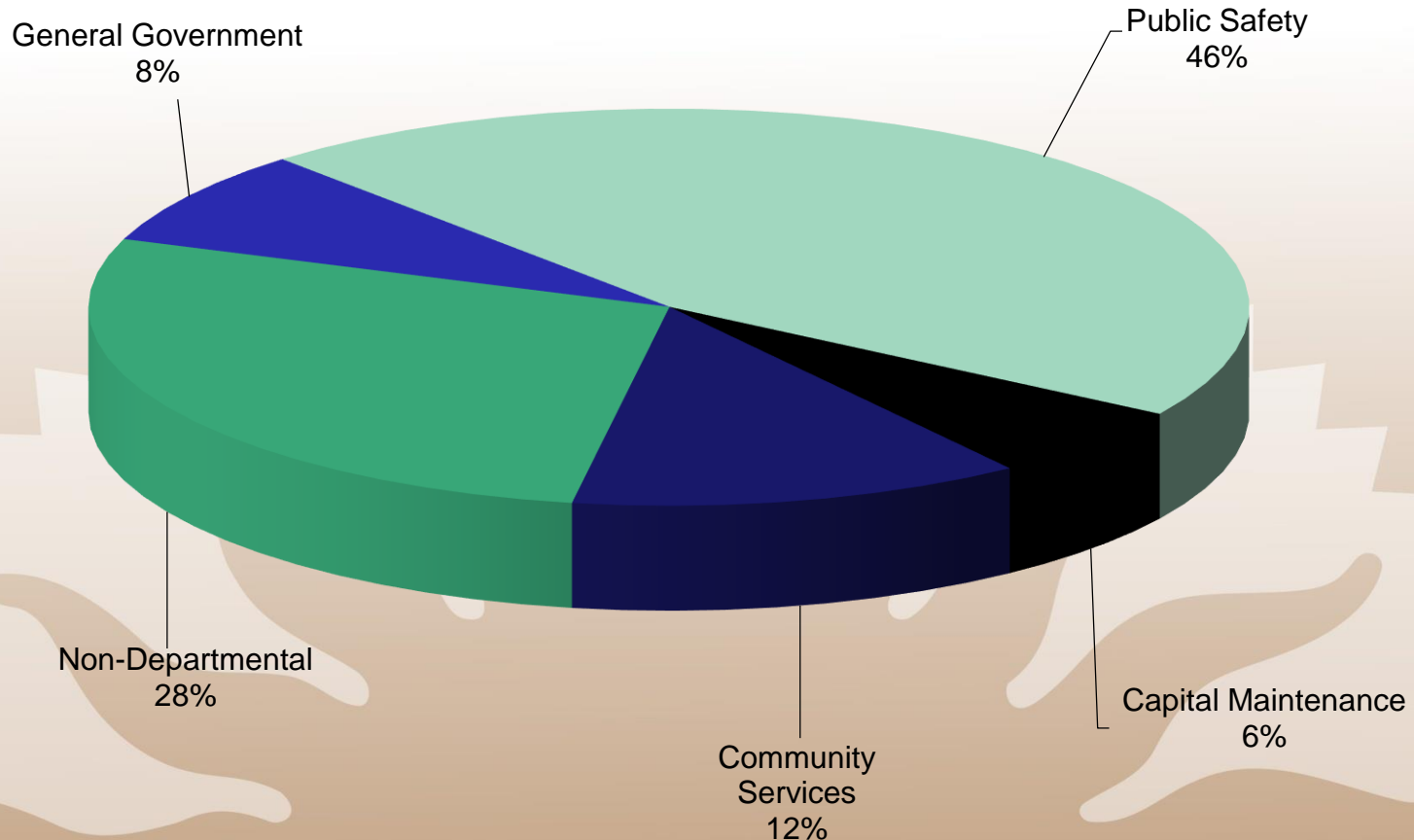
- Costs associated with services funded on a one-time basis in 2017-2018
- Costs associated with unmet/deferred infrastructure and maintenance needs
- One-time revenues/expenses

2018-2019 Proposed Budget – General Fund Funding Sources



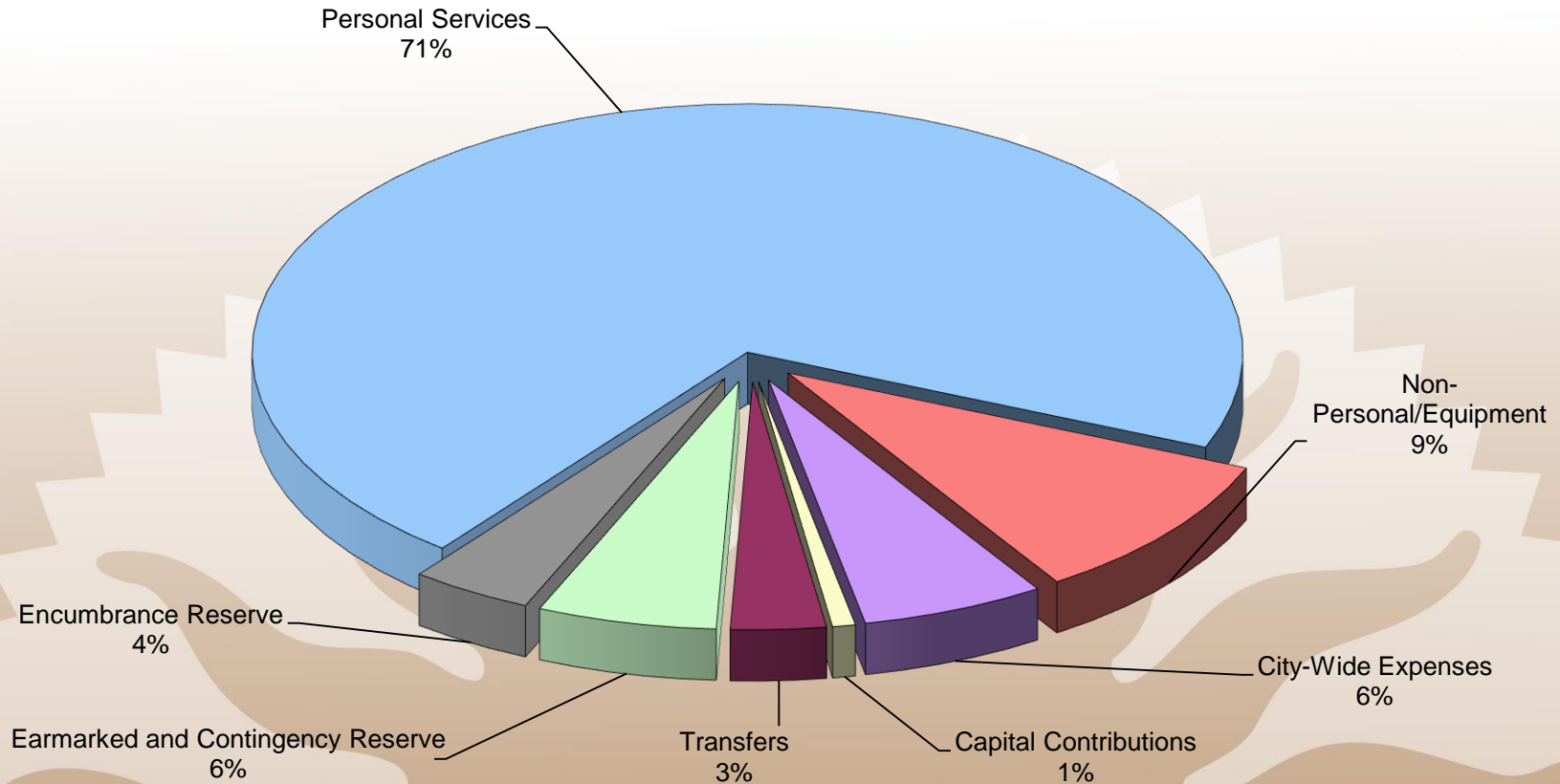
TOTAL GENERAL FUND SOURCES: \$1,227,943,240

2018-2019 Proposed Budget – General Fund Uses



TOTAL GENERAL FUND USES \$1,227,943,240

2018-2019 Proposed Budget – General Fund Uses by Category



TOTAL GENERAL FUND USES \$1,227,943,240

2018-2019 Budget Balancing Strategy

General Fund

	<u>2018-2019</u>	<u>Ongoing</u>
Total General Fund Shortfall	\$ (4.3 M)	\$ (4.3 M)
Recommended Balancing Strategy		
– Changes in Sources	\$ 52.0 M	\$ 9.0 M
– Changes in Uses	<u>(47.7 M)</u>	<u>(4.7 M)</u>
Total Balancing Strategy	\$ 4.3 M	\$ 4.3 M
Remaining Balance	\$ 0.0 M	\$ 0.0 M

2018-2019 Budget Balancing Strategy

Changes in General Fund Sources

	<u>2018-2019</u>	<u>Ongoing</u>
Beginning Fund Balance		
2018-2019 Future Deficit Reserve	\$ 20.3 M	\$ 0
Successor Agency to the RDA Refunding Property Tax	9.4 M	0
Retiree Healthcare Solutions Reserve	4.3 M	0
Airport West (FMC) Debt Service	2.5 M	0
Cultural Facilities Capital Maintenance Reserve	1.0 M	0
Other Revenue/Expend Savings/Rebudgets/Reserve Liq.	(0.2 M)	(3.5 M)
Grants/Reimbursements/Fees		
Development Fee Programs	4.8 M	5.3 M
Diridon Station Area Planning/Development Reimbursement	1.3 M	0
Placemaking and Parks Activation Grants	0.5 M	0
Other Fee Programs/Reimbursements/Grants	4.1 M	3.7 M
Other Revenue		
City of San José Business Tax Amnesty Program	1.5 M	1.2 M
Other Revenues	1.4 M	1.3 M
Overhead from Other Funds	<u>1.1 M</u>	<u>1.0 M</u>
Total Change in Funding Sources	\$ 52.0 M	\$ 9.0 M

2018-2019 Budget Balancing Strategy

Changes in General Fund Uses

	<u>2018-2019</u>	<u>Ongoing</u>
Service Level Enhancements	\$ 16.1 M	\$ 3.1 M
2019-2020 Future Deficit Reserve	15.5 M	0 M
Earmarked Reserves (e.g., City Health Plan Restruc., Essential Services)	7.7 M	0 M
2017-2018 One-Time Funded Services	6.7 M	2.8 M
Unmet/Deferred Technology, Infrastructure, and Maint.	4.0 M	0.1.M
Development Fee Programs	2.6 M	1.4 M
New Infrastructure/Equipment Operations and Maint.	0.6 M	1.6 M
Other Fee Programs/Grants/Reimbursements	0.1 M	0 M
Cost Reductions/Service Delivery Efficiencies/Fund Shifts	(3.7 M)	(3.2 M)
Use of Reserves (e.g., Cultural Facilities, Committed Add.)	<u>(1.9 M)</u>	<u>(1.1 M)</u>
Total Change in Funding Uses	\$47.7 M	\$4.7 M

2018-2019 Budget Balancing Strategy

Revised Forecast with Proposed Actions

2019-2023 Revised General Fund Forecast Incremental General Fund Shortfalls*

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Incremental Shortfalls	(\$4.3 M)	(\$15.5 M)	(\$8.9 M)	(\$10.5 M)	\$10.8 M
2018-2019 Budget Actions (Ongoing)	\$4.3 M	\$0 M			
Remaining Incremental Shortfalls	\$0	(\$15.5 M)	(\$8.9 M)	(\$10.5 M)	\$10.8 M
2019-2020 Future Deficit Reserve**		\$15.5 M			

* Forecast assumes each year shortfall is resolved with ongoing solutions.

** One-time funds can be used as a bridge strategy to provide additional time to pursue ongoing solutions to help close the budget gap, as needed.

Recommended Budget Actions

Homelessness and Housing

- Affordable Housing Transactions
- Homeless Services Staffing
- Homelessness and Housing
- Housing Department Public Outreach Program
- Rental Rights and Referrals Program
- Project Hope Program
- Housing Development Planning Staffing
- Urban Village Planning Staffing
- African American Community Services Agency Upgrades

Recommended Budget Actions

Public Safety

- Office of Emergency Management Staffing
- Aircraft Rescue and Firefighting (ARFF)
- Fire Department Management Reorganization
- Gas Detection Monitor Calibration Services
- Police Department Staffing Reorganization (Police Patrol Supervision)
- Domestic Violence Assistance
- Cannabis Regulation Staffing
- Downtown Foot Patrol Program
- College Football Playoff National Championship
- National Hockey League All Star Weekend Special Event Coverage

Recommended Budget Actions

Public Safety (Cont'd.)

- Northern California Regional Intelligence Center Grant Staffing
- Police Department Recruiting and Backgrounding
- Regional Auto Theft Task Force
- School Crossing Guard Program
- St. James Park Security
- City Hall Security
- Library Security Staffing

Recommended Budget Actions

Environment

- Biosolids Management Program Staffing
- Climate Smart
- Water Supply and Conservation Staffing
- Community Energy Financial Support Staffing
- Environmental Review Planning Staffing
- Contract Vehicle Abatement Services
- Street Sweeping Inspection/Contract Management
- Trash Capture Device Maintenance

Recommended Budget Actions

Innovation and Technology

- My San José 2.0
- Office of Innovation Staffing
- City-Wide Open Data Environment and Architecture
- City Portfolio-Product-Projects Office
- Innovation Roadmap – Privacy/Data Security, Community Wi-Fi, Safe City Strategy
- ESRI Database Agreement
- Master Addressing Database
- Parks Irrigation Technology
- Timeclocks Modernization Pilot Program
- Sanitary Sewer Video Inspection

Recommended Budget Actions

Education and Our Youth

- San José Learns 3.0
- Instruction Programming Services Staffing
- San José Works 4.0
- Service Year
- Recreation Program Scholarships
- Walk n' Roll Staffing

Recommended Budget Actions

Community Engagement

- Anti-Litter Staffing
- Aquatics Program
- BeautifySJ Grants
- Ethnic and Minority-Led Small Business Grant Program
- Outdoor Special Events Coordinator
- Placemaking and Parks Activation
- San José Streets Team Litter and Trash Removal
- Silicon Valley Talent Partnership
- Sports Authority Event Support
- Vietnamese American Community Center

Recommended Budget Actions

Saving and Improving Fiscal Sustainability

- Airport Concessions Consultant and Bond Feasibility Study
- Airport Capital Delivery Program and Business Development Support
- Ballot Measure Polling
- Diridon Station Area Planning and Development
- Flood-Related Parks Capital Projects Staffing
- City Hall Network Operations Center – Electrical Switch Replacement
- Children's Discovery Museum HVAC Replacements
- Hammer Theatre Center Carpet Replacement and HVAC Controls
- Business Tax Amnesty Program
- Police Administration Building Elevator Replacement
- San José Museum of Art HVAC Controls Upgrades

Recommended Budget Actions

Fee and Charges Adjustments

- **Utilities:**
 - Storm Sewer Service Fee: No increase
 - Sewer Service and Use Charge Fee: 3.0% increase
 - Recycle Plus Rates: 2.0% increase for multi-family dwellings and 3.0% for single-family dwellings
 - Municipal Water System Rates: average 5.6% increase to cover increased operating costs (rates will vary by user)
- **Development Fee Programs:** Second year implementation of fee increases/changes aligned to fee study completed in 2016
- **Other Fee Programs:** Fee changes to generally maintain cost recovery

Next Steps

May 10 th through 23 rd	Community Budget Meetings
May 9 th through 14 th	City Council Budget Study Sessions
May 15 th /June 11 th	Public Budget Hearings
June 1 st	Mayor's June Budget Message Released
June 12 th	Council Review/Approval of Mayor's June Budget Message and Budget
June 19 th	Adoption of the 2018-2019 Budget and Fees and Charges

FY18/19 Economic Forecast

| May 11, 2017
| City of San Jose

SAN JOSE

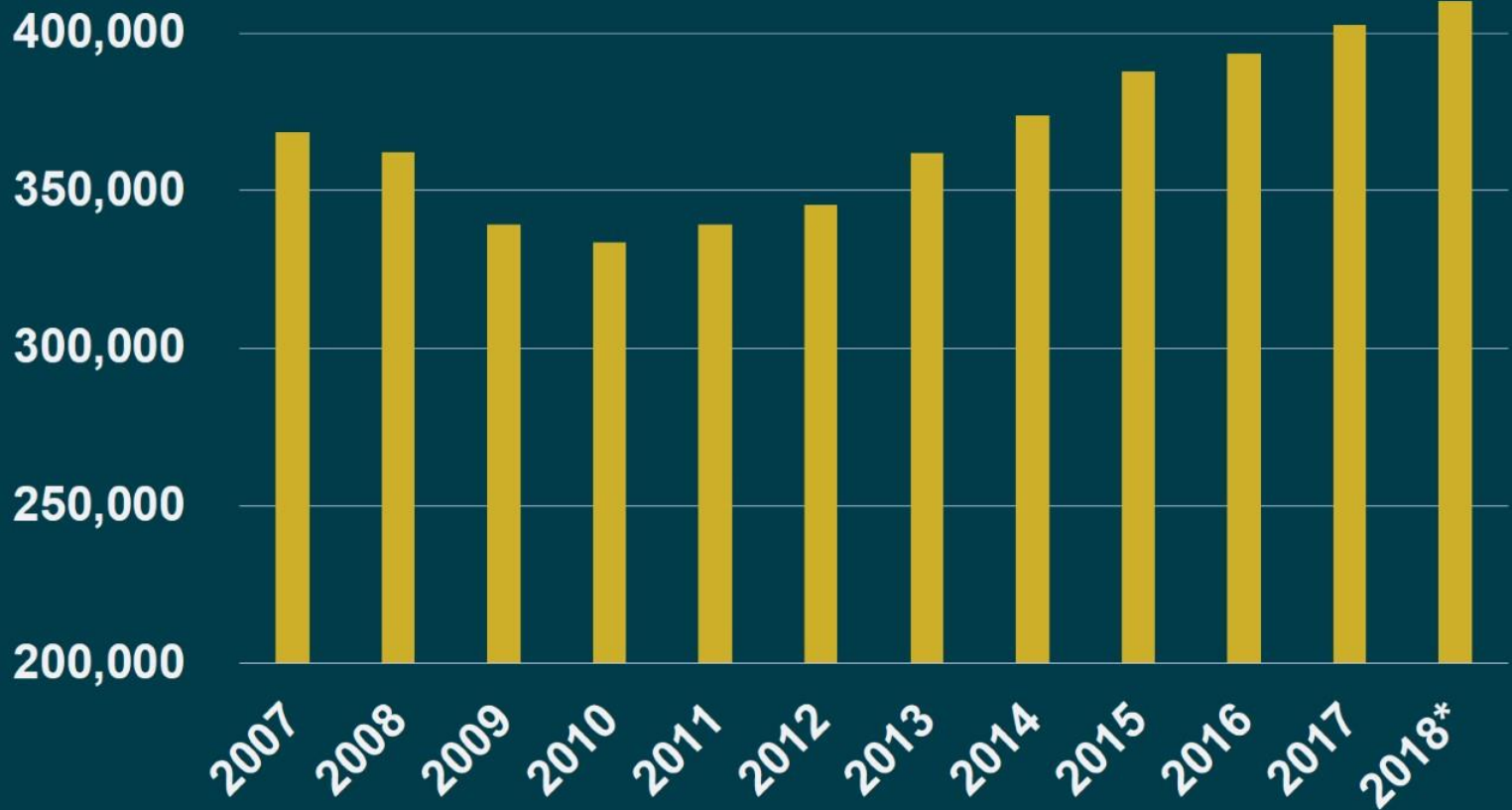


Jobs and Revenues

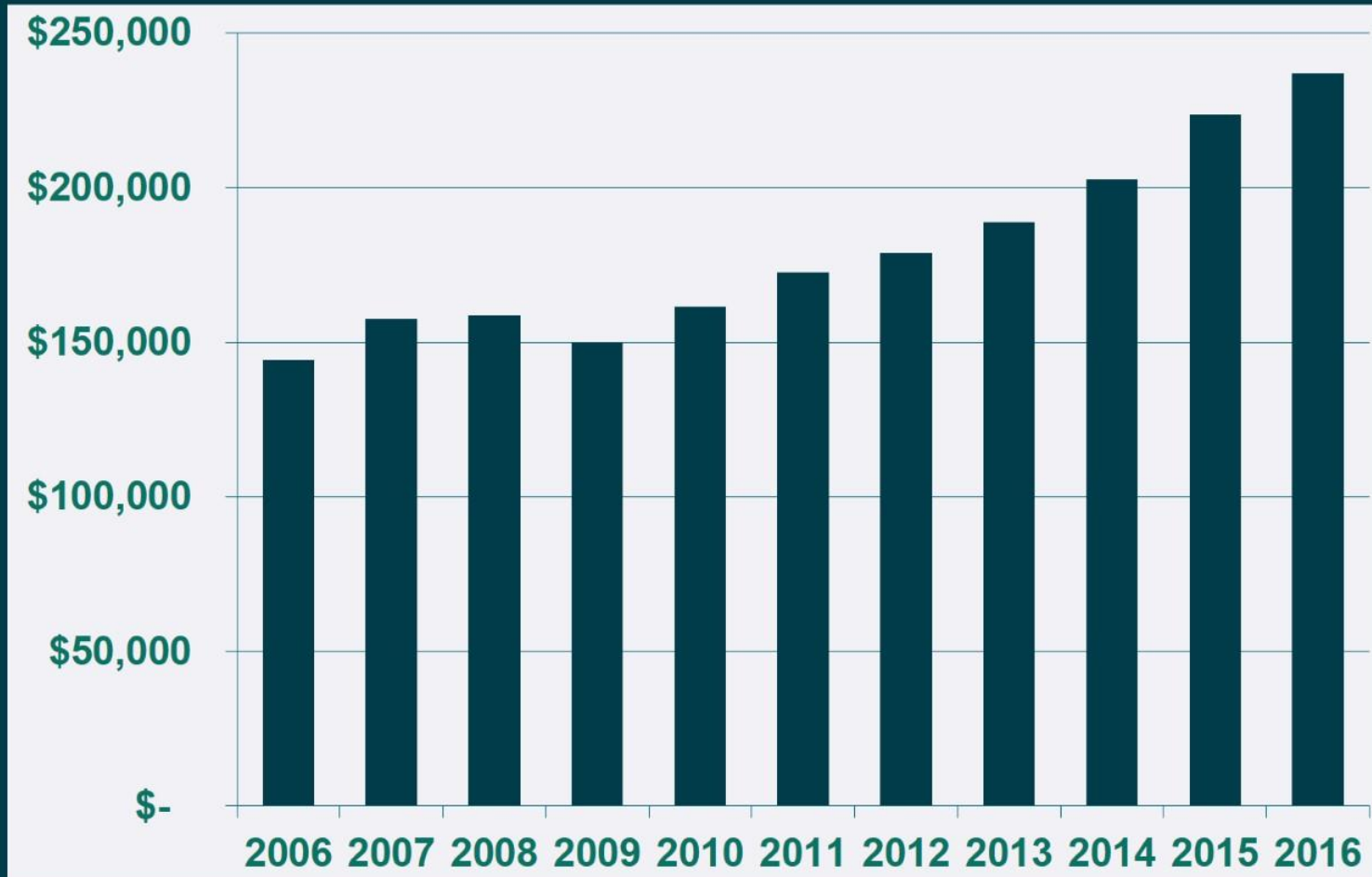
A photograph of three people in a laboratory or workshop. A man in a black jacket is leaning over a table, pointing at a device. Two women in blue lab coats are looking at the device. The woman on the left has a name tag that says "Sally". The background shows shelves with various equipment and supplies.

SANJOSE

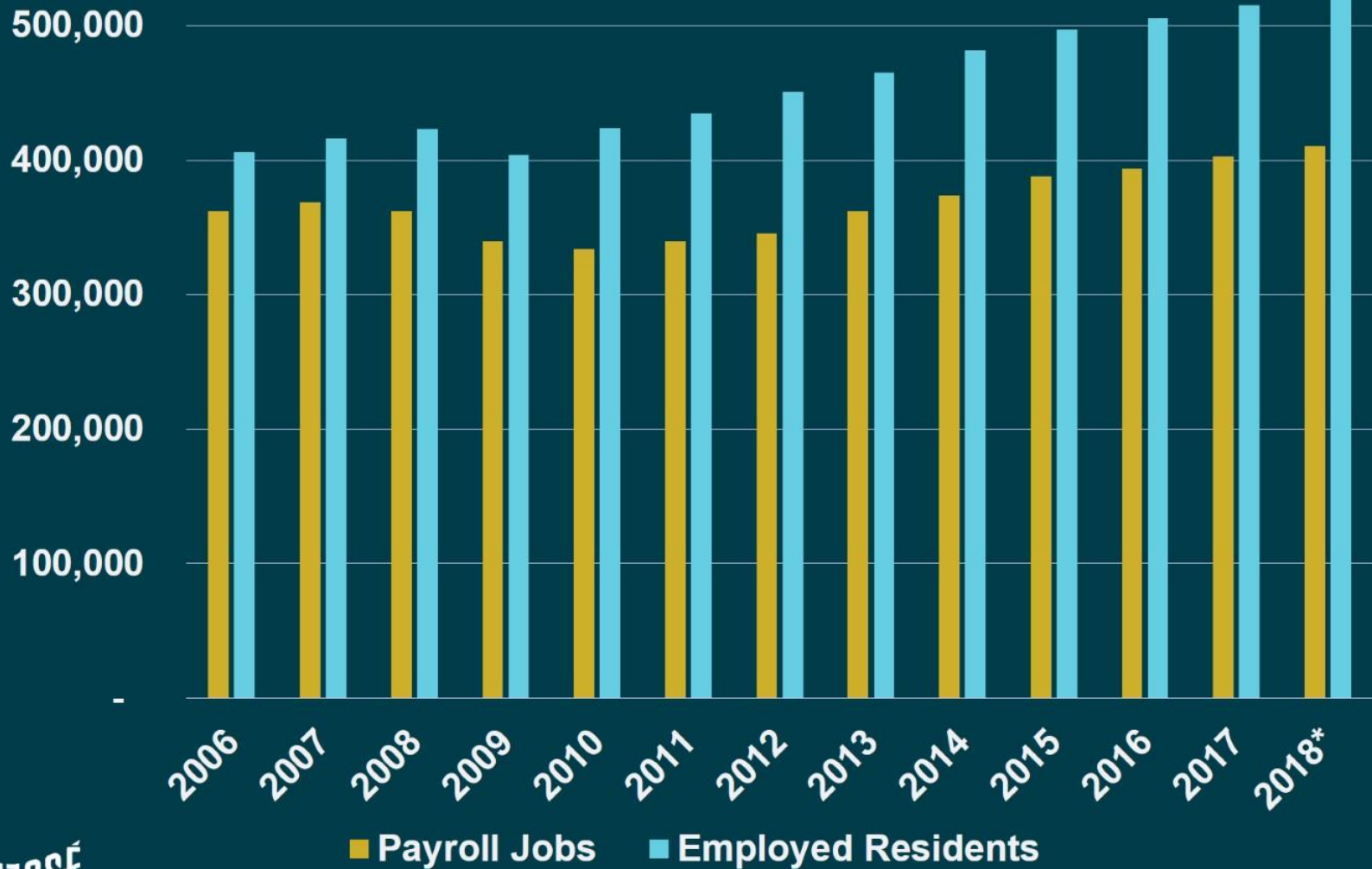
Job Growth Remains Strong into 2018



Fastest GDP growth per Capita in US



City Continues to Add Employed Residents at Much Faster Rate than Jobs

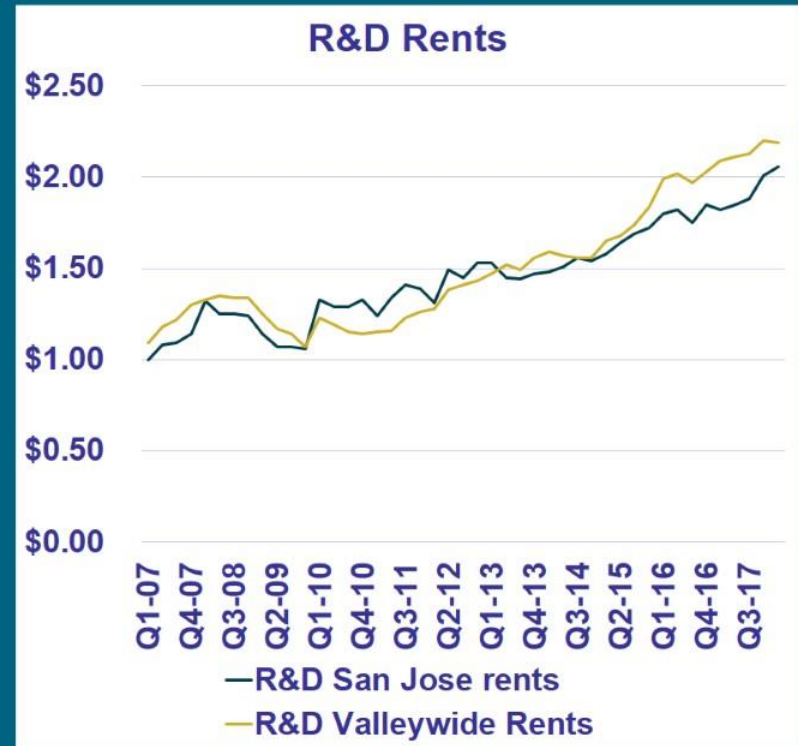
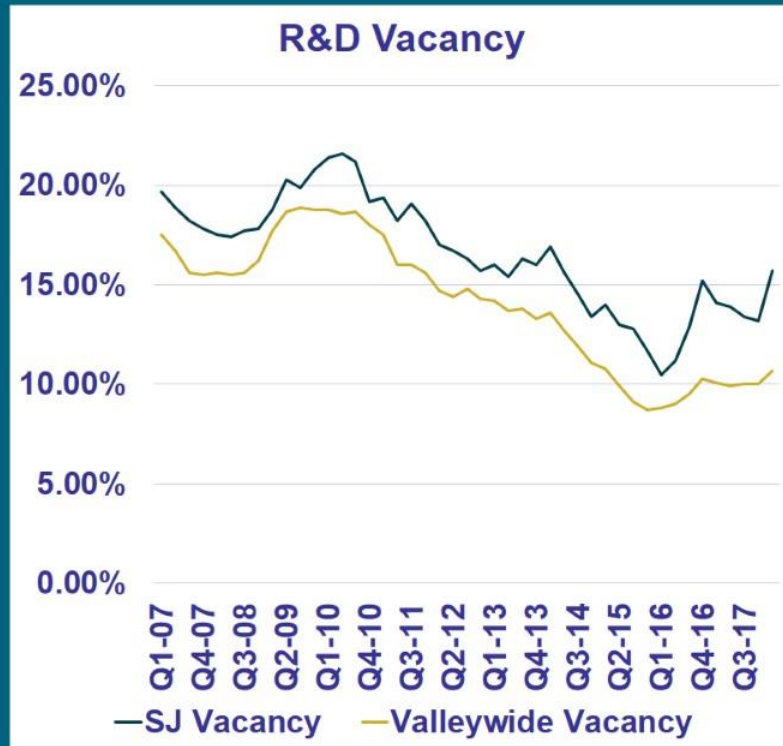


Real Estate

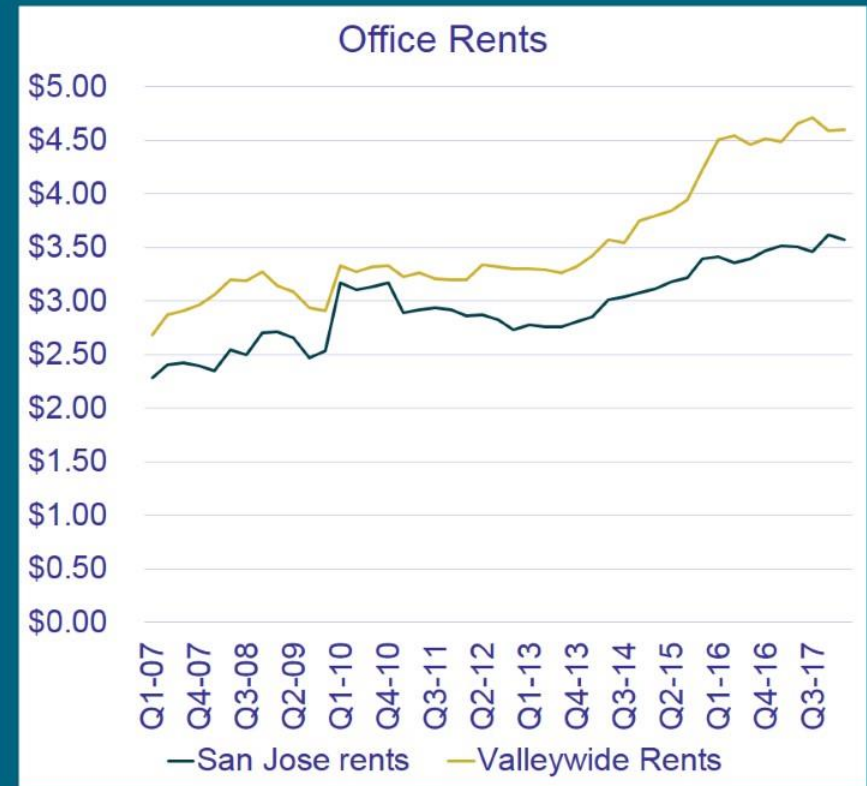
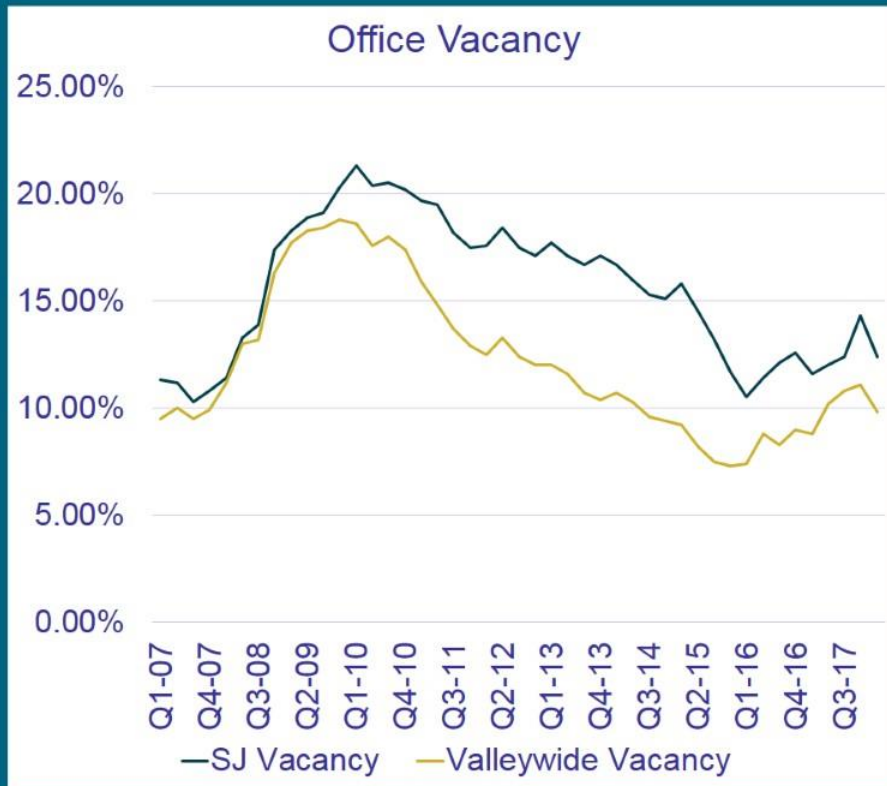


SAN JOSE

R&D Market shows modest growth

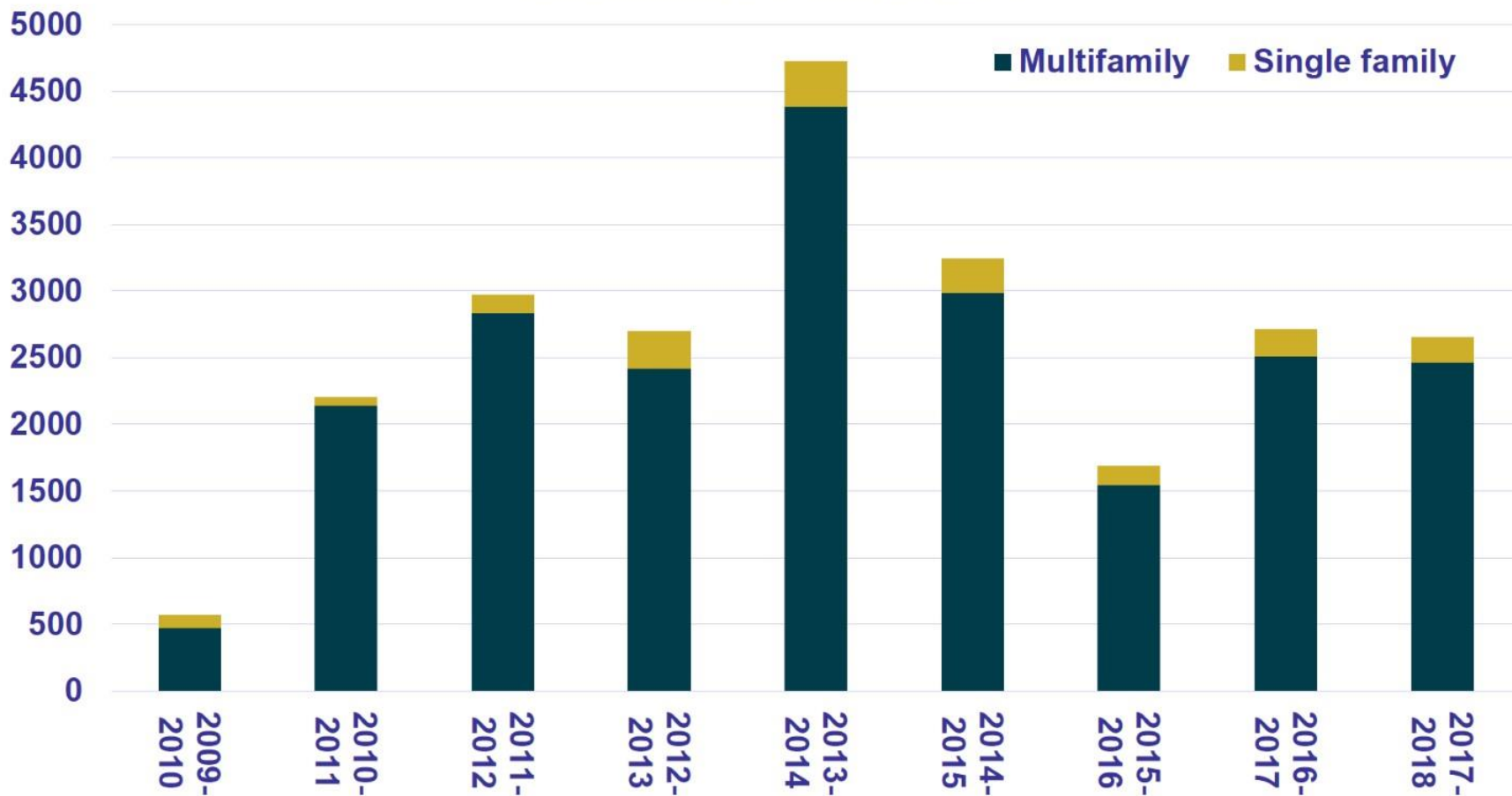


Office Market: Slow and Steady



Housing Production Constraints Visible

Residential Permits Issued

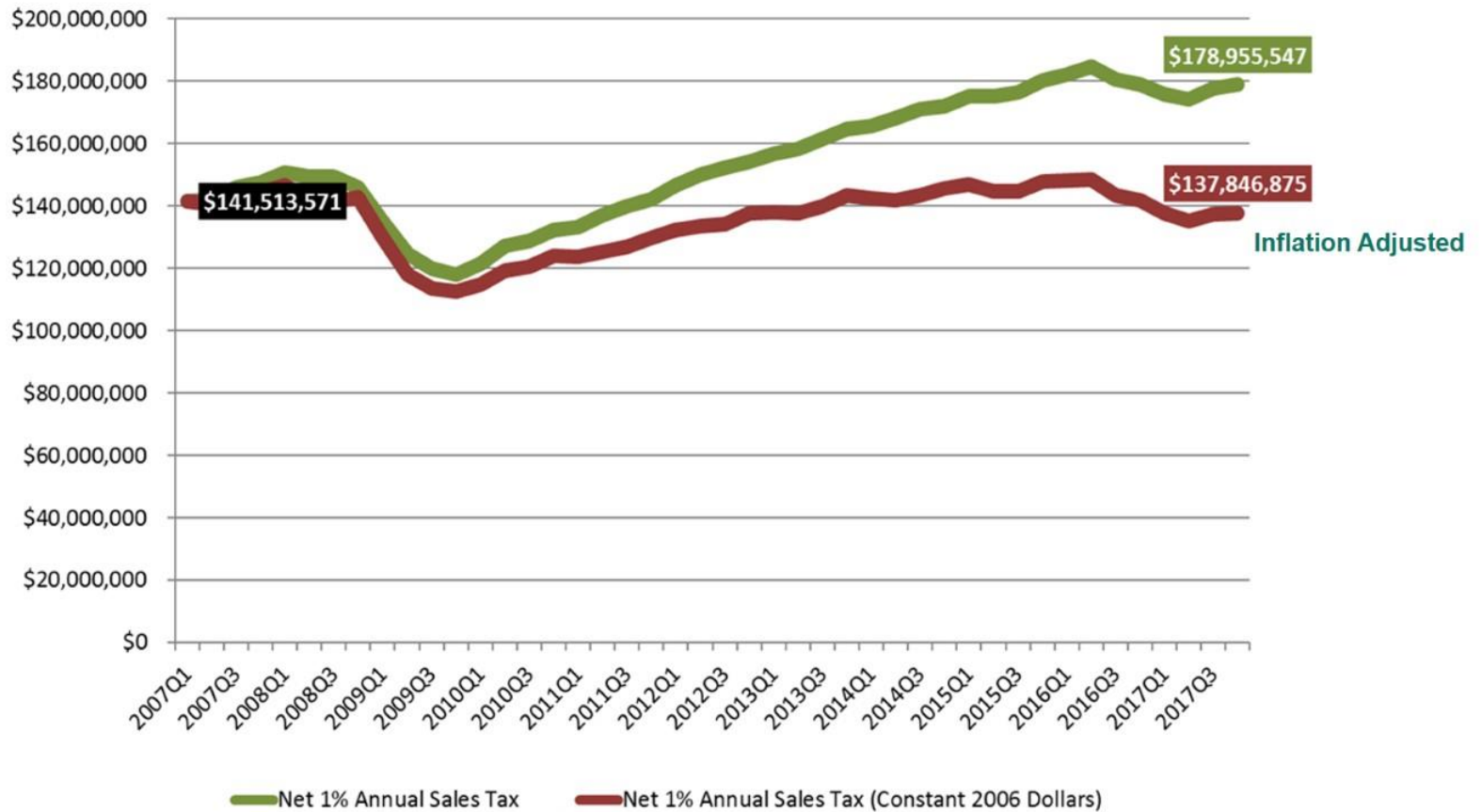


Sales Tax



SANTOSÉ

Net 1% Annual Sales Tax, San Jose



Sales Tax by Category



General Retail



Business to Business



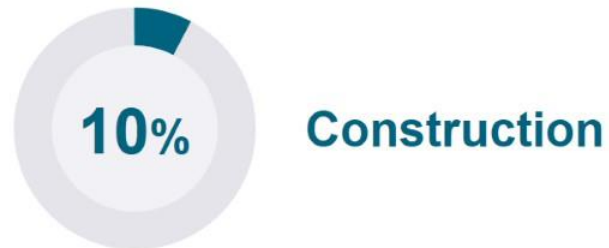
Pools



Transportation

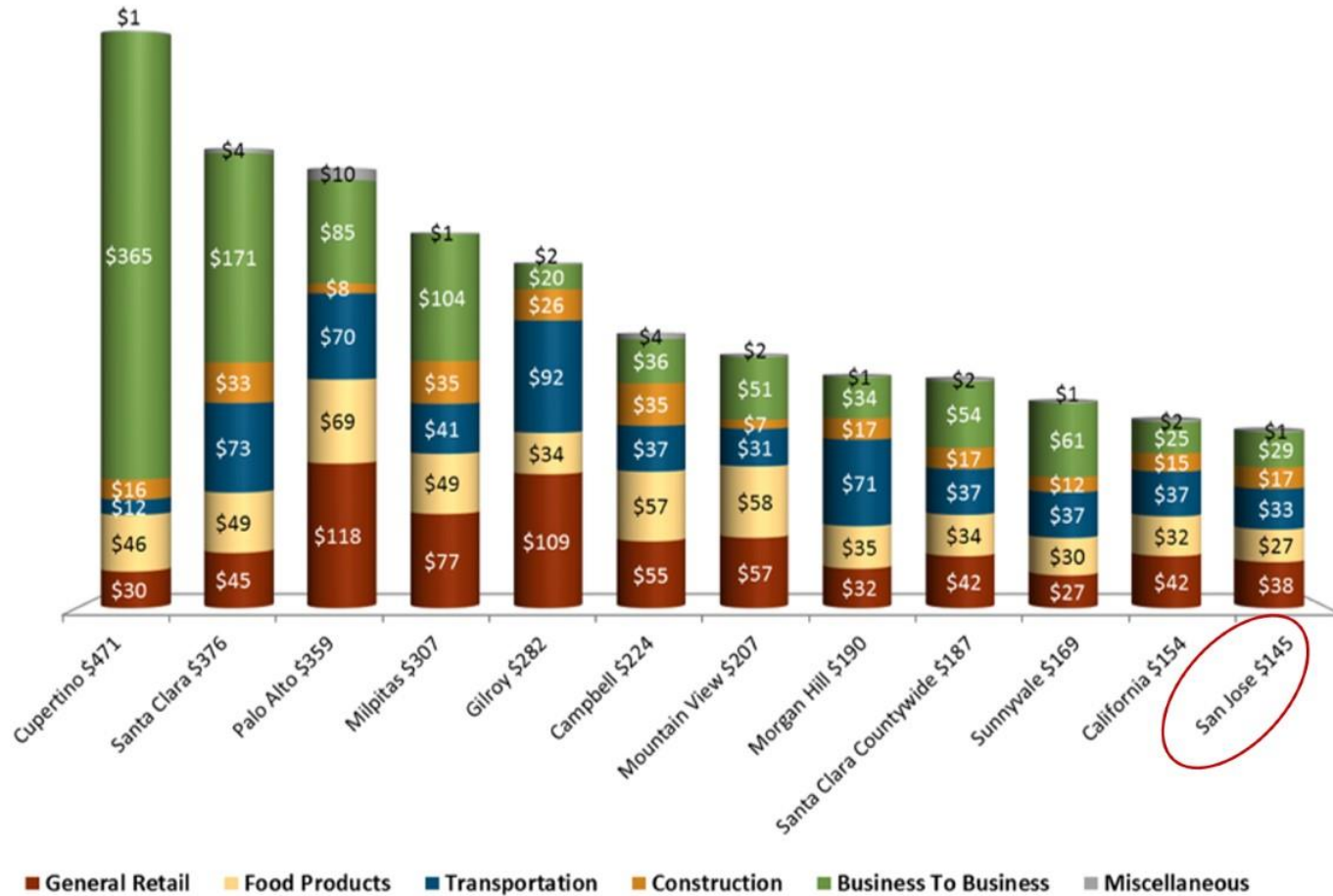


Food Products



Construction

Sales Tax per Capita by City



Growing Divide

SAN JOSE

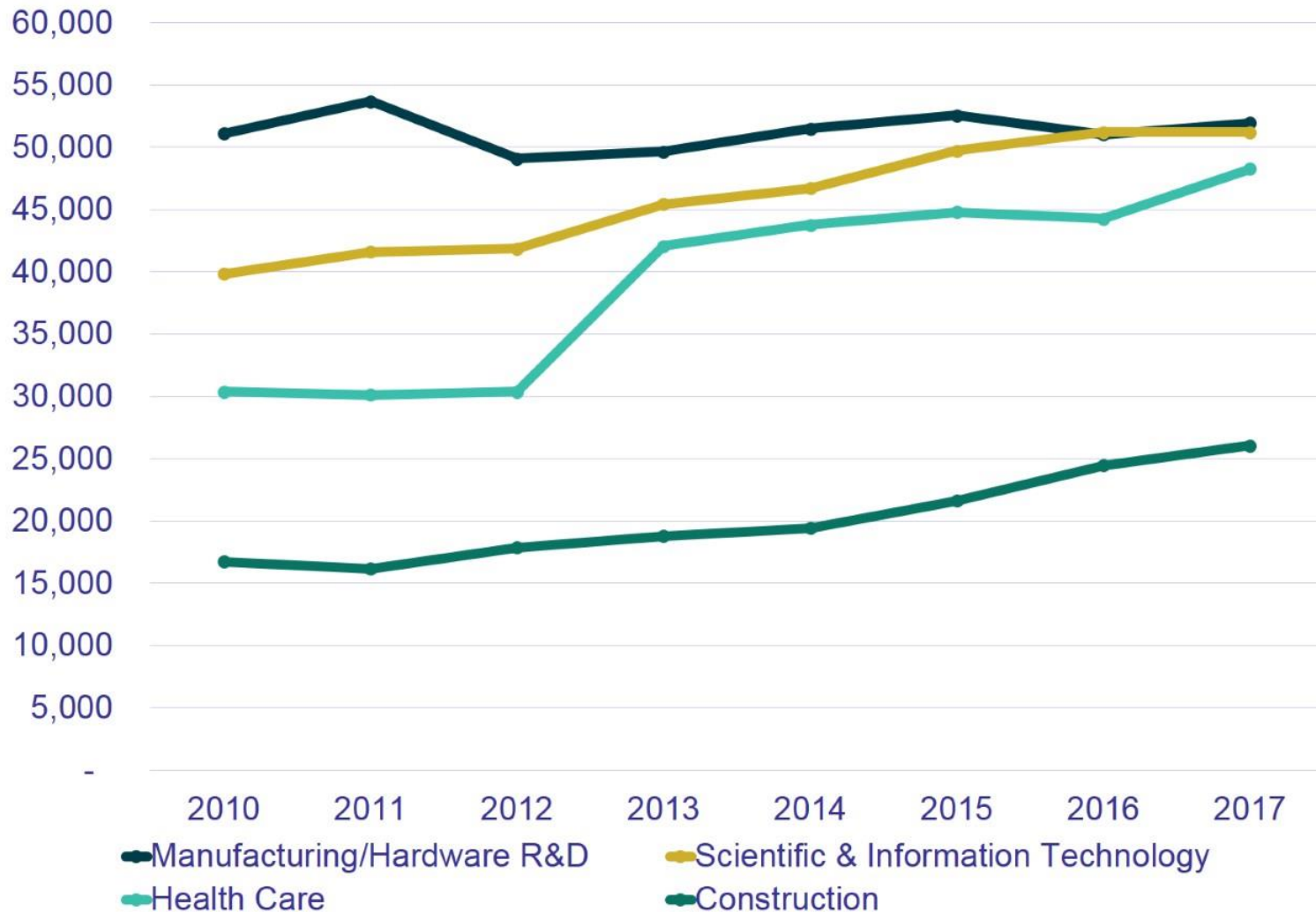




Economic Distress

- 3 in 10 households are living in poverty or below the self sufficiency standard
- 1 in 10 households are one \$400 expense away from similar circumstances

Driving Industries: Transition to the service economy, middle skill job base growing



Driving Industries: Mean Hourly Wages

Manufacturing (Production Only): \$21.02

Construction (All Occupations): \$31.72

**Can be Learned
on the Job**

Healthcare (All Occupations): \$55.42

Information/Tech (All Occupations): \$59.09

**Typically
Require College**

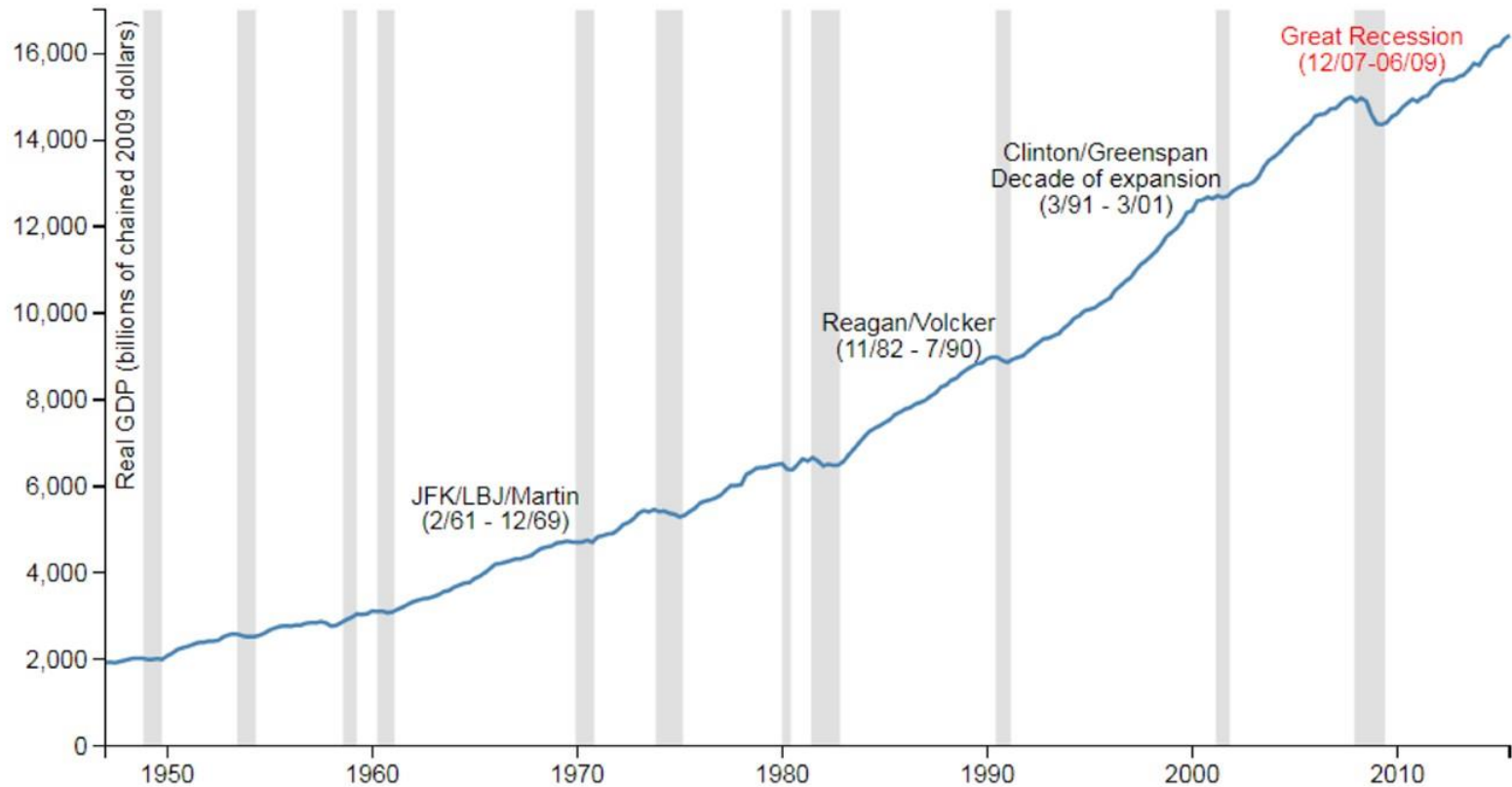
Looking Forward

SAN JOSÉ

Economic Reset?



Historic Cycle Lengths: Second Longest Cycle Since WWII



BEA U.S. Bureau of Economic Analysis, "Table 1.17.6. Real Gross Domestic Product, Chained Dollars [Billions of chained (2009) dollars]"
Prepared by UNM Bureau of Business and Economic Research

Three possible scenarios for the economy before the end of the decade:

01

Keeps Growing: Job growth slows but continues, construction stalls due to high costs but available real estate absorbs demand

02

Stagnates: Job growth stalls as employers find it harder fill vacant position, GDP and investment slows.

03

Resets: Rising unemployment as high costs impact driving industries, lower consumer spending, further impacting small and medium sized business

FY18/19 Economic Forecast: **Things to watch in the year ahead**



Jobs and Unemployment



GDP and Consumer Spending



Inflation and Interest Rates



Major Events



M&A Activity and Impact on Jobs

FY18/19 Economic Forecast: What we're hearing

- ✓ **Employer demand for space remains strong**
- ✓ **...But, some companies face hiring challenges**
- ✓ **Major new projects will add to retail base**
- ✓ **...But consumers spending less \$ on taxable goods**

Questions?

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City of San José

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May 9, 2018